

Epilogue

by Albert E. DePrince, Jr.

Tax reform again occupies center court, thanks to another sizable gap between projected revenue and spending. This issue of *Tennessee's Business* has leaped into the fray, as it lays out some of the shortcomings of the current tax structure as well as the varied financial needs of the state, particularly in the area of education.

Admittedly the subjects of government spending and taxation are controversial, and it is not the purpose of either the Business and Economic Research Center (BERC) or the College of Business to take sides in the debate. Rather, our purpose is to inform our readers of the many layers of complexity behind both the state's revenue needs and the state's revenue generating capacity given its tax structure.

Part of today's political uproar may lie in semantics. In today's debate, the phrase "tax reform" is an unabashed code for "tax increase." While merged in the debate, there are nonetheless two separate fiscal issues—tax reform and the need for more revenue. We hope this issue provides an understanding of both.

Tax reform implies making the tax structure better, and several of the articles lay out what might be "broken" in our tax system and what might be the solution. Two shortcomings stand out for mention at this time. Some analysts see the current structure as inherently regressive, meaning the "effective tax rate" each of us pays to the state is inversely related to our level of income. Others see it as inherently inelastic, meaning the state's revenue does not grow as fast as the economy. Additionally, while not discussed in any articles, Tennessee's heavy reliance on a single tax source may make it more vulnerable to shifting economic conditions than a state with a wider (more diversified) tax structure.

The need for more tax revenue has been an ongoing saga throughout this decade. In nearly every year, there have been special revenue needs, whether for hospitals, mental health, the prison system, TennCare, or education. In fact, education poses a dual problem. First, implementation of the BEP necessitates more spending, much of it for additional classrooms and teachers to meet



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class-size objectives that are far smaller than typical in the state. Second, the tremendous growth in employment has been mirrored by a tremendous growth in the school-age population, which requires more space and additional teachers. The latter raises the specter that, while growth may more than pay for itself in the long run, it creates financial burdens in the short run. But that is another issue for another time.

Of the two fiscal issues, one is immediate—the need for more revenue than can be generated by the current tax structure. The other—the structural problems in the tax system—is less immediate. In fact, the structural shortcomings have been with us for some time, and in the absence of sizable revenue needs, the state could probably get by without addressing the structural problems.

However, it is the decade's persistent need for additional revenue that is now calling attention to the structural problems. Not surprisingly, this has led to a merging

of the issues in the public debate, and the merging of proposed solutions by some. However, it may well be the very merging of the two fiscal issues and the merging of solutions that has led to the fierce opposition to any solution.

Some may see this issue of *Tennessee's Business* as one-sided. That was not our intent. We hope this epilogue has put the controversy in perspective. The immediate issue of revenue shortfalls can be addressed singularly or within the wider context of reform. The political debate will determine the path. In the debate, proponents of more tax revenue must convince critics that there is value in the proposed spending and that the state's historic conservative fiscal management has left little room for short-run maneuvers. Proponents of reform must be mindful of the burden carried by those arguing for more revenue to meet the state's needs. Both must be mindful of a skeptical public.

As the debate unfolds, the BERC hopes this issue provides an important public service. We encourage you to read the articles carefully, and we are interested in your views. Please contact us (berc@mtsu.edu). ■

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